OER/PPG/R&D File

E/W - 24 November

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ONE ARTICLE FROM OER'S ECONOMIC INTELLIGENCE WEEKLY REVIEW ENDING 24 NOVEMBER 1978. REQUEST ARTICLE BE PASSED TO AMBASSADOR, DCM, ECONOMIC SECTION AND OTHER WORKING LEVEL STATE OFFICERS. [redacted] PLEASE PASS TO US MISSION OECD. [redacted]: PLEASE PASS TO US MISSION TO EC.

PLEASE NOTE: BEGINNING WITH THE NEXT ISSUE, THE ECONOMIC INTELLIGENCE WEEKLY REVIEW WILL BE ISSUED ON FRIDAY. CABLEVERSION OF ARTICLES THEREFORE WILL BE ISSUED ONE DAY LATER AND SHOULD REACH YOU BY OOB THE FOLLOWING MONDAY.

WORLD GRAIN: 1978/79 A BUMPER YEAR (THIS ARTICLE SUMMARIZES A FORTHCOMING OER RESEARCH PAPER, WORLD GRAIN SUPPLY/DEMAND OUTLOOK FOR 1978/79)

1. GRAIN PRODUCTION (TOTAL GRAIN AS USED IN THIS ARTICLE EXCLUDES RICE.) WILL BE MORE THAN SUFFICIENT TO MEET HIGHER LEVELS OF CONSUMPTION AND TRADE IN 1978/79 SO THAT ADDITIONS TO GLOBAL STOCKS CAN BE EXPECTED. DESPITE INCREASED FOREIGN COMPETITION, THE US SHARE OF WORLD TRADE IN WHEAT AND CORN PROBABLY WILL SHOW LITTLE CHANGE.

RECORD SUPPLIES AND CONSUMPTION

2. WORLD GRAIN PRODUCTION FOR 1978/79 IS FORECAST AT A NEW HIGH OF 1,160 MILLION TONS, 80 MILLION TONS ABOVE 1977/78 AND 40 MILLION TONS ABOVE THE PREVIOUS RECORD SET IN 1976/77. GAINS ARE EQUALLY DIVIDED BETWEEN WHEAT AND COARSE GRAINS. (COARSE GRAINS INCLUDE CORN, SORGHUM, BARLEY,

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OATS, RYE, MILLET, AND MISCELLANEOUS GRAINS.) PRODUCTION IS EXPECTED TO EQUAL OR EXCEED LAST YEAR IN EVERY MAJOR REGION OF THE WORLD. THE EC AND USSR WILL REGISTER THE LARGEST GAINS. AN INCREASE IN THE AREA SOWN TO GRAIN AND VERY FAVORABLE GROWING CONDITIONS ARE THE MAJOR FACTORS UNDERLYING THIS OPTIMISTIC PRODUCTION FORECAST. ESTIMATES FOR NORTHERN HEMISPHERE CROPS ARE RELATIVELY FIRM; ESTIMATES FOR SOUTHERN HEMISPHERE CROPS REMAIN TENTATIVE.

3. PLENTIFUL GRAIN SUPPLIES, RISING INCOMES AND POPULATION IN LDCS, AND EXPANDING LIVESTOCK PROGRAMS WILL PUSH CONSUMPTION OF BOTH WHEAT AND COARSE GRAINS TO NEW HIGHS IN 1978/79. CONSUMPTION WILL STILL FALL SHORT OF PRODUCTION, PARTICULARLY FOR COARSE GRAINS, PERMITTING AN ADDITION TO FREE WORLD STOCKS FOR THE SIXTH CONSECUTIVE YEAR. SOVIET WHEAT STOCKS COULD BE BUILT UP SUBSTANTIALLY AND CHINESE STOCKS SLIGHTLY IF IMPORTS INTO THE USSR AND THE PRC APPROXIMATE OUR FORECAST. A NET ADDITION TO US STOCKS WILL BE POSSIBLE; A LARGE ADDITION TO COARSE GRAIN STOCKS MORE THAN OFFSETTING AN ESTIMATED 20-PERCENT DECLINE IN WHEAT STOCKS. THE US SHARE OF FREE WORLD STOCKS OF ALL GRAINS WILL STAY AT 40 PERCENT.

IMPORT DEMAND STILL STRONG

4. DESPITE AN OUTSTANDING PRODUCTION YEAR, WE FORECAST GLOBAL GRAIN TRADE IN THE MARKETING YEAR ENDING 30 JUNE 1979 (MY 1979) WILL BE SLIGHTLY ABOVE THE PREVIOUS HIGH OF 156 MILLION TONS IN MY 1978. IMPORT DEMAND FOR WHEAT WILL BE DOWN LESS THAN A MILLION TONS, MORE THAN OFFSET BY AN EXPECTED RISE IN IMPORT DEMAND FOR COARSE GRAINS OF ALMOST 2 MILLION TONS. ALTHOUGH US EXPORTS WILL FACE STIFFER COMPETITION, THE US SHARE OF THE WORLD WHEAT MARKET IS EXPECTED TO HOLD ABOUT 45 PERCENT, WITH A SLIGHT DROP IN THE SHARE OF THE CORN MARKET, TO 75 PERCENT.

5. FOREIGN DEMAND FOR US WHEAT, CURRENTLY STRONGER THAN A YEAR AGO, CAN BE EXPECTED TO SLACKEN BY EARLY 1979 AS LARGER SOUTHERN HEMISPHERE SUPPLIES BECOME AVAILABLE AND AS THE EC CONTINUES TO SUBSIDIZE WHEAT EXPORTS. US EXPORTS IN MY 1979 ARE EXPECTED TO EXCEED LAST YEAR'S LEVEL BY MORE

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THAN 1 MILLION TONS. TOTAL WORLD TRADE IN CORN DURING MY 1979 IS FORECAST TO INCREASE SLIGHTLY, LOWER SOVIET DEMAND BEING MORE THAN OFFSET BY LARGER CHINESE PURCHASES.

6. LESS IS KNOWN THAN A YEAR AGO ABOUT SOVIET INTENTIONS FOR BUYING US GRAIN ABOVE THE US/USSR LONG TERM AGREEMENT MINIMUM OF 6 MILLION TONS. WE ESTIMATE THAT SOVIET MY 1979 GRAIN IMPORTS WILL BE ABOUT 14 MILLION TONS, NEARLY 25 PERCENT BELOW LAST YEAR. US SHIPMENTS TO THE SOVIET UNION ARE EXPECTED TO FALL TO 9.5 MILLION TONS DUE TO A 2.7 MILLION TON DROP IN CORN SHIPMENTS. ON THE OTHER HAND, CHINA IS EXPECTED TO IMPORT LARGE AMOUNTS OF US GRAIN--3.2 MILLION TONS OF WHEAT AND ABOUT 3.0 MILLION TONS OF CORN--FOR THE FIRST TIME SINCE MY 1975.

7. US GRAIN EXPORT PRICES FOR WHEAT AND CORN ARE EXPECTED TO REMAIN ABOVE MY 1978 AND TO HOLD RELATIVELY STABLE THROUGH EARLY 1979. ALTHOUGH SOUTHERN HEMISPHERE SUPPLIES COULD EXERT DOWNWARD PRESSURE ON PRICES, THIS WILL BE MODERATED BY STRONG FOREIGN DEMAND. (SECRET NOFORN)

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ORIG & AUTH: ASA/D/OER/NFAC [redacted]; REL: CH, NFAC/CS
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END OF MESSAGE